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GAIN Report

Global Agricultural Information Network

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Romanian Dairy Products Annual Report 2016

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Report Highlights:

The Romanian dairy sector faced strong competition in 2015 mainly from other European Member States. Commercial sector continued to strengthen despite market challenges, while the backyard sector plunged. The spike in demand from third countries for dairy products and the market measures taken at the EU level alleviated to a certain extent the milk crisis in the second half of 2016. Fluid milk and dairy products consumption is poised to grow in 2016 in case of all types of products.

General Information:

Dairy Inventory

The statistical figures on dairy cow inventory show an upward trend, from 1.169 million head in 2014 to 1.191 million head in December 2015. Non-commercial sector continues to suffer from lack of profitability and will witness a further drop. Commercial farms on the other hand are expected to continue growing encouraged by the level of subsidies and local policies on milk acquisition.

Cow milk reached 4.24 billion liters in 2015, a drop of 3 percent as compared to previous year (Table 1) and is expected to only marginally rise in 2016. According to the data provided by the Ministry of Agriculture and Rural Development (MADR), in 2015 deliveries to dairies represented about a quarter of the total milk production and direct sales held more than a quarter (28 percent). The largest portion went for on-farm family consumption (36 percent), while the balance represented feed use.

The average milk yield fell in 2015 as a reaction to the precarious market conditions and it is expected to show only a marginal improvement in the second part of 2016, as an effect of the measures taken at the EU level to support the dairy market. In comparison to other EU member states, Romania ranks among the last in terms of average milk yields. Backyard farming dominates the structure of the dairy market as the majority of the cows are raised by very small holdings, about half of the herd being held by 83 percent of agricultural holdings with only 1-2 dairy cows (per Agricultural Survey conducted in 2013). Therefore, the consistent progress made by commercial farms in terms of genetics, animal welfare, hygiene conditions, animal nutrition and farm management, does not significantly reflect into the results at the national level.

Table 1 – Romania, Dairy cow Inventory

	2011	2012	2013	2014	2015	2016
Dairy Cows (head)	1,178,600	1,170,000	1,163,000	1,169,000	1,188,000	1,190,700
Total Cow Milk Production ('000 liters)	4,372,866	4,182,312	4,238,157	4,371,326	4,240,181	4,260,000
Total Cow Milk / Cow (liters/head)	3,710	3,575	3,644	3,739	3,569	3,578

Source: National Institute of Statistics; FAS projection for milk production of 2016

In 2015 the unfavorable dairy market conditions translated into a lower appetite for investment in genetics. The import value of genetics (bovine frozen semen) grew only marginally in 2015 (plus 2.5 percent). During the first 8 months of 2016 import plummeted by a quarter in terms of both quantity and value. The United States, in general, is the leading provider of genetics among all the foreign genetics suppliers on the Romanian market. However, a combination of factors such as falling milk price, sales drop, and delays in receiving the EU subsidies led to a lower demand for genetics on one hand, and a migration to less expensive sources for frozen semen on the other hand. Main competitors for the United States are Germany, Belgium, Canada, the Netherlands and Switzerland. The substantial support received by livestock farmers in mid-2016 and the measures adopted at the EU level to improve the dairy market environment may revitalize the demand for high-quality genetics from the United States.

Fluid Milk

In accordance with previous expectations, in 2015 milk deliveries to dairies fell as a result of the strong competition generated by the oversupply of milk due to the EU dairy quota abolition. Declining orders from dairy processors facing competition from abroad for dairy products, along with lower milk quantities produced by farms due to the summer drought, resulted in this decline. The trend changed in 2016. Data published by the National Institute of Statistics showed an increase of 4.5 percent in milk deliveries to dairies during the first 8 months of 2016. This positive trend is expected to last until the end of the year for cow milk deliveries.

Other milk deliveries to dairies (sheep, buffalo, goat) rose again in 2015 and are projected to rise further in 2016. This positive trend is supported by consumers' willingness to switch part of their diet towards milk coming from other species, despite the difference in price.

Table 3 – Romania, Milk Production, Trade and Consumption (MT)

Fluid Milk	2013	2014	2015	2016*
Cow Milk Deliveries to Dairies	882,381	996,653	919,000	935,000
Other Milk Deliveries to Dairies	26,520	43,681	47,925	52,500
- sheep	18,122	27,280	29,679	32,000
- buffalo	1,282	1,400	1,417	1,500
- goat	7,116	15,001	16,829	19,000
Total milk deliveries	908,901	1,040,334	966,925	987,500
Imports	136,105	115,612	146,522	185,000
TOTAL SUPPLY	1,045,006	1,155,946	1,113,447	1,172,500
Exports	21,929	35,602	31,723	46,000
Total Available for domestic consumption	1,023,077	1,120,344	1,081,724	1,126,500
TOTAL DISTRIBUTION	1,045,006	1,155,946	1,113,447	1,172,500

*Source: National Institute of Statistics, Global Trade Atlas; *FAS projections*

Fluid milk imports exceeded expectation for the rate of growth (Table 4). In 2015 fluid milk imports expanded by 27 percent. The import data shows an increase of 36 percent during the first 8 months of 2016, therefore imports are expected to grow in a similar pace till the end of 2016. In terms of fluid milk imports, Hungary remains the major supplier, followed by Poland and Czech Republic.

Table 4 – Romania, Fluid Milk Imports, Quantity (MT)

Country	Calendar Year				Year To Date		
	2012	2013	2014	2015	08/2015	08/2016	%Change
Total, of which	120,010	136,104	115,611	146,716	84,564	115,605	36.71
Hungary	87,263	100,268	81,119	105,122	63,228	88,562	40.07
Poland	5,260	11,558	14,439	19,106	8,588	7,020	-18.26
Czech Republic	11,663	10,779	11,978	13,772	8,562	10,136	18.38
Germany	4,997	6,508	4,139	3,053	2,089	2,484	18.92
Greece	209	224	341	2,418	477	380	-20.29

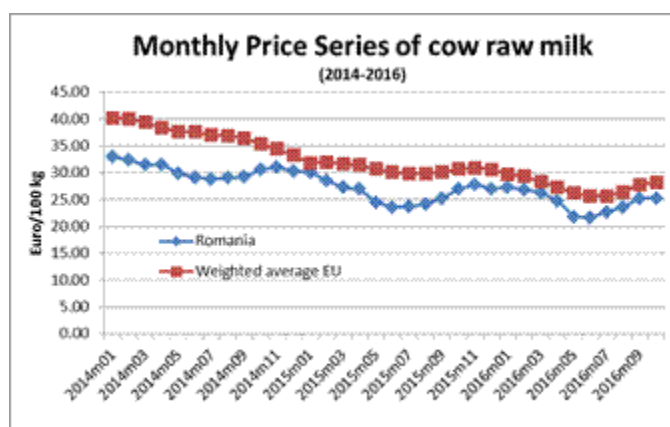
Slovakia	1,549	2,500	1,829	1,459	820	3,360	309.86
Bulgaria	5,324	2,382	496	712	160	2,594	1517.97
Other	3,744	1,886	1,269	1,074	640	1,069	67.03

Source: Global Trade Atlas (GTA)

On the other hand, fluid milk exports picked up this year, growing by almost 60 percent during the first 8 months of 2016, after a plunge of 10 percent in 2015. The main destination was Bulgaria, which is a good market for dairy farms located in the southern part of Romania as transportation costs make them competitive. Greece and Moldova Republic were two other destinations for Romanian fluid milk.

A part of the milk deliveries to dairies is processed for consumption in fluid state, while the largest part is transformed into dairy products (factory use consumption). Growth rate for fluid milk production was relatively modest in 2015 (3.6 percent), but the rate of growth during the first 8 months of 2016 (7.8 percent) creates expectations for a double rate. Price-competitive imported dairy products led to a decline in the factory use consumption in 2015 but that is projected to resume the upwards trend in 2016.

Milk price in Romania followed the rising tendency noticed at the EU level starting with July 2016. Traditionally the Romanian average milk price is lower than the EU average, but the gap between the two levels shrank over the past year, as it may be observed in the diagram below. Poor rural infrastructure and small-scale farms, in addition to other developments, such as milk quota abolition and Russia's trade restrictions, keep the farm-gate milk prices down.



Source: EU Milk Market Observatory

Dairy Products

The VAT cut from 24 percent to 9 percent from June 2015 is viewed as a positive factor that led to dairy consumption increases. The range of products and brands present in Romania expanded significantly starting with 2015. Imported products covered part of the additional demand generated by the higher consumer purchasing power.

Note: This report only takes into account the dairy products obtained in the commercial plants and which reach consumers through commercial channels. This report does not take into consideration dairy

products (butter, cheese etc.) produced in the agricultural holdings for purpose of on-farm family-consumption or from direct sales to consumers.

Butter

Butter production is growing steadily. In 2015 butter production rose by 5.7 percent and is estimated to grow by 7.2 percent in 2016. Imports followed the same positive trend, but at a more spectacular pace (42-44 percent per year). Poland and Germany are the main foreign butter suppliers on the Romanian market. In 2016 butter imports are projected to reach the same level as production (12,000 MT), as compared to three years ago when imports were at 55 percent of the production level. Butter exports are not significant and had negative growth during the first 8 months of 2016, indicating difficulties in Romanian operators finding markets for their products.

Table 5 – Romania, Butter Production, Trade and Consumption (MT)

Butter	2013	2014	2015	2016*
Production	9,801	10,588	11,196	12,000
Imports	5,401	5,827	8,443	12,000
TOTAL SUPPLY	15,202	16,415	19,639	24,000
Exports	309	287	738	500
Available for Human Domestic Consumption	14,893	16,128	18,901	23,500
TOTAL DISTRIBUTION	15,202	16,415	19,639	24,000

Source: Global Trade Atlas, National Institute of Statistics;

**FAS projections*

Table 6 – Romania, Butter Imports, Quantity (MT)

Country	Calendar Year				Year To Date		
	2012	2013	2014	2015	08/2015	08/2016	%Change
Total, of which	3,704	5,401	5,828	8,446	3,849	6,161	60.07
Poland	796	1,586	1,774	3,482	1,573	2,882	83.25
Germany	847	1,101	1,264	1,432	748	1,294	73
Bulgaria	319	271	220	1,269	180	162	-9.94
Slovakia	139	876	810	639	413	434	5.06
France	434	326	423	533	283	411	45.42
Netherlands	501	420	711	404	298	463	55.48
Belgium	177	215	224	249	163	193	17.95
Hungary	343	164	129	164	84	154	84.47
Other	147	441	271	275	107	168	57.01

Source: Global Trade Atlas (GTA)

Cheese

Cheese production grew constantly from one year to the next. Cheese production rose by 9 percent in 2015. Based on the production figures published by the National Institute of Statistics, for the first 8 months in 2016 cheese production is projected to grow by 11 percent in 2016. Cheese imports grew

more rapidly than production, 17 percent in 2015, and at an estimated rate of 26 percent in 2016 (Table 8). Germany, Poland, Hungary, Italy and Bulgaria are the main suppliers. Cheese exports followed a positive trend in both years, but they represent only a fifth of import level. Cheese consumption is anticipated to expand further encouraged by promotions and new products.

Table 7 – Romania, Cheese Production, Trade and Consumption (MT)

Cheese (MT)	2013	2014	2015	2016*
Production	70,477	74,654	81,650	91,000
Imports	40,000	42,000	49,170	62,000
TOTAL SUPPLY	110,477	116,654	130,820	153,000
Exports	10,978	8,971	10,661	12,000
Human Dom. Consumption	99,499	107,683	120,159	141,000
TOTAL DISTRIBUTION	110,477	116,654	130,820	153,000

Source: Global Trade Atlas, National Institute of Statistics;

**FAS projections*

Table 8 – Romania, Cheese Imports, Quantity (MT)

Country	Calendar Year				Year To Date		
	2012	2013	2014	2015	08/2015	08/2016	%Change
Total, of which	36,361	39,224	40,061	49,180	30,250	39,902	31.91
Germany	13,921	16,801	17,236	21,996	13,350	16,888	26.5
Poland	7,194	6,798	6,855	8,145	5,012	6,458	28.86
Hungary	3,211	3,681	3,108	4,247	2,751	2,683	-2.45
Italy	1,068	1,180	1,707	2,901	1,558	2,835	81.97
Bulgaria	2,134	2,035	1,709	2,085	1,433	2,090	45.84
Netherlands	841	635	1,135	2,039	1,349	2,630	95
Austria	1,553	1,776	1,734	1,790	1,152	1,293	12.24
Czech Republic	1,464	1,177	877	1,114	748	643	-13.98
Denmark	1,522	1,548	2,213	1,067	552	1,229	122.7
Belgium	360	347	817	975	632	1,328	110.21
Other	3,093	3,246	2,669	2,822	1,715	1,826	6.47

Source: Global Trade Atlas (GTA)

Other dairy products

Other dairy products, such as yogurt and sour cream, remained on the upward trend in 2015 and are set to stay on this path in 2016. According to data published by the National Institute of Statistics, sour cream production increased by 15 percent (from 58,646 MT in 2014 to 67,385 MT in 2015), while yogurt (and other sour products) production rose also by 15 percent (from 165,997 MT in 2014 to 190,519 MT in 2015). These two-digit increases were stimulated on one hand by higher consumer demand due to improved purchasing power and on the other hand by the demand migration from traditional channels to commercial channels. The only products which had a negative growth were dry milk products, which declined in 2015 by 36 percent (from 3,935 MT in 2014 to 2,513 MT in 2015).

Domestic support

In Romania the dairy sector receives several types of financial support with the purpose to increase efficiency and stimulate farmers' interest in this sector. Similar to the last year, in 2016 eligible farmers will roughly receive U.S. \$24/MT of milk delivered to dairies, assuming they deliver a minimum of 3 MT/year, a condition meant to stimulate farm size enlargement.

Coupled support is another type of subsidy which recompensed farmers who complied with certain requirements. In 2015 the Romanian Government projected coupled support to an estimated number of 300,000 head of dairy cattle for a total budget allocation of U.S. \$ 82 million (about U.S. \$ /275 head). At the end of the application process, only about 90,000 dairy cattle complied with the requirements, so the total support was distributed to the eligible farmers. Consequently, the support reached U.S. \$ 925/head. Since the number of farmers qualified for this support is estimated to increase, against the same budget in the future, the level per head is projected to drop. Even so this support remains much higher in Romania as compared to other EU member states.

The coupled support is topped up with the decoupled support of U.S. \$ 115/head from the national budget allocated for the number of bovines farmers owned in January 2013, regardless the variations over time in the herd within a farm. This type of support is set to decrease gradually until 2020.

In addition to the above support, the Romanian Government approved legislation to encourage acquisition of heifers for dairy production using the *minimis-aid* system. The level of support is U.S. \$ 1,250 /head in case of heifers.

Voluntary milk reduction scheme

In general, the Romanian dairy domestic industry has not applied for EU market intervention measures such as private storage for dairy products. The reasons for the lack of interest for such instruments may be the reduced supply of products subject to these measures, limited storage or the result of cost-benefit analysis.

This fall, somehow unexpectedly 72 Romanian dairy farmers decided to apply for the EU-wide measure aimed at incentivizing a voluntary reduction in production in October 2016. The amount of milk with which Romanian farmers agreed to contribute to milk reduction at the EU level in the last quarter of 2016 was 2,307 MT (an average of 32 MT/farmer). The second call for application brought additional 20 farmers to the voluntary reduction milk scheme for an additional amount of 41 MT. In exchange for this voluntary production reduction, farmers will receive the equivalent of 14 Euro cent /kg (U.S. \$ 15.4 /100 kg).

Law on milk labelling

In 2016 the Romanian Parliament, approaching the end of the mandate (December 2016), passed several laws with impact on the food industry operators. One of them is Law 88/2016 concerning

supplementing rules on milk and dairy products labelling. The law was approved in a fast manner, disregarding the views of the dairy processing industry. Despite the warnings launched by analysts, the lack of predictability generated by such a law with long-term effects, the law received final approval. Several amendments were drafted shortly after the law was published.

According to the law 88/2016 concerning supplementary mandatory measures for labelling fresh milk and dairy products, the following information must be included on the label: name of the food product, the list of ingredients, weight of the product, expiration date, special storage conditions, country of origin and the place of origin for the milk utilized as raw material, name of the packer and stamp, name and address of the dairy processor, nutritional declaration, fat content expressed in percentage, type of heat treatment utilized (pasteurized, sterilized, ultra-pasteurized). In case of milk and dairy products originating from other species than cow, the name of the species must be included on the label. Furthermore, the law specifies the conditions under which one operator is allowed to use the expression “Romanian Product” as being only in case they use 100 percent raw milk originating from Romanian farms. In addition, dairy products should include on the label the warning “*It contains milk powder in proportion ofpercentage*”.

According to the provisions of the law, Veterinary and Food Safety Authority would notify the EU member states and EU Commission regarding this law and the law would be implemented 90 days after EU Commission communication of the decision. As the measure was not notified to the EU before being enacted, the law on milk labelling has not been enforced yet. This new measure should have also been notified to World Trade Organization (WTO), since it impacts foreign suppliers of ingredients in certain dairy products, which Romania failed to do.

End of report.